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The Federal Shutdown's Impact on States and Localities.

SPEED READ:

- **In prior shutdowns, states have kept most programs and services running and been reimbursed by the feds. But sometimes, they aren't fully or quickly reimbursed.**
- **Programs that help the most vulnerable populations are most affected.**
- **About two-thirds of federal grant funding to states is considered mandatory and is generally not impacted by a shutdown.**

The federal government has been shut down for 12 days, and there is no immediate end in sight. The longer it goes, the more disruptive it will be to state and local governments that have to pick up the tab for services.

This shutdown is the third and the longest of President Donald Trump's tenure. As with the first shutdown of his administration, immigration is the focus of the dispute. Trump is calling for $5.6 billion in funding for a border wall between the U.S. and Mexico, but the idea lacks the necessary support in Congress.

The impact of a federal shutdown on other governments is all about duration. Now that the stalemate is approaching the two-week mark, states and localities — and the economy at large — could start to encounter serious challenges. S&P Global Ratings estimates that the shutdown could shave $1.2 billion off real GDP for each week that part of the government is closed.
"A protracted federal shutdown," it warns "would compound the effects of fading fiscal stimulus and act as a drag on an economy already experiencing decelerating growth."

House Speaker Nancy Pelosi has promised that the House, newly controlled by Democrats, will pass a bipartisan deal by Tuesday. But there's no guarantee that Trump or even the Senate, where Republicans gained seats in the midterm elections, would approve it.

The Cost of Covering Services During a Shutdown

In prior shutdowns, states have generally put up their own money to keep most programs and services running. That's a calculated risk because the feds have generally reimbursed the states for such expenses in the past.

National Association of State Budget Officers' John Hicks told Governing previously that it is "comforting" to states that they have been reimbursed after previous shutdowns. "The best example people have in their recent memory is that it hasn't caused financial pain to states for continuing to provide services," he added.

That said, there's no guarantee states will be fully reimbursed or that it will be in a timely manner. For instance, nearly four years after the 2013 shutdown, Arizona, Colorado, New York, South Dakota, Tennessee and Utah were still waiting to get all their money back.

What's Impacted by the Shutdown and What's Not

Cities and counties are likely to face fewer challenges than states, largely because local governments get relatively little direct federal funding.

The key to determining the shutdown’s impact on a particular government program is whether funding is mandatory or discretionary. Generally, mandatory programs — such as Medicaid and food stamps — aren’t affected. About two-thirds of federal grant funding to states is considered mandatory.

Furthermore, a fair amount of discretionary programs are safe because of previously passed measures that cover a full year of funding. That means programs funded through the departments of Defense, Education, Health and Human Services, Labor, and Veterans Affairs should not be affected. Therefore, programs like the Low Income Home Energy Assistance Program or Head Start preschool — which have ran out of funds in previous shutdowns — will be able to stay open. The Children’s Health Insurance Program — a victim of previous shutdowns — is also safe thanks to a six-year funding deal reached last year.

Highway programs are largely funded by a special account called the Highway Trust Fund — not the general fund — so they are generally spared, too.

Programs that help the most vulnerable populations are most affected. According to Federal Funds Information For States, funding is currently in doubt for the cash welfare program (officially called Temporary Assistance for Needy Families) and Child Care Development Fund programs because they weren’t among those to receive a full year appropriation.

In the event of a prolonged shutdown, the bond market could slow down. That’s because governments preparing to issue bonds may delay their borrowing, especially for projects that have significant federal funding components. As a result, it’s possible that some construction on transportation infrastructure will come to a halt.

When it comes to state employees whose positions are funded by federal grants, which includes some economic development and local housing workers, states might pick up the difference, at least for a time. But they may have to make tough decisions in the event of a longer shutdown.

Meanwhile, furloughed workers are starting to file for unemployment.

The District of Columbia, Maryland and Virginia are home to thousands of federal workers and contractors and are among the states most affected by the federal work stoppage. According to the Baltimore Sun, unemployment insurance applications have started to spike in Maryland. The state labor department had 169 new applications as of Dec. 27, but that number is expected to grow. Unlike previous shutdowns, federal funding has already been appropriated to cover the cost of these offices staying open to take claims.

Still, the uptick is not quite as dramatic, so far, as it was in 2013 when state unemployment offices were flooded with requests from temporarily laid off federal employees. That’s in part due to the fewer number of federal workers affected. Also, employees who receive backpay when the government reopens will have to refund employment offices any benefits they received.

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